




Paramount Pictures

COPY

To: Eric Doctorow
From: Steve Madoff 
Subject: DVD - Anti-Copy Legislation
and Related Issues

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Further to your request, this will discuss Jack Valenti's September 27 memo and related DVD issues.

Basically, although Valenti's memo is generally factually accurate, it is misleading in its alarmist tone, implying that we are at a critical crossroads and a decision on whether to go forward or not must be made immediately.

In essence, the status of the legislative efforts is as follows:

The computer industry has proposed a paradigm shift for copy protection which provides for an encryption-based system requiring software owners to encrypt their discs and then authorize decryption only if copy protection encoding is activated. Strong anti-circumvention language in the legislation would penalize distributors of machines which circumvent the encryption technology. This proposal has three main shortcomings, which the technology committee is analyzing. They are:

1. It is unclear how digital satellite and cable transmissions will be encrypted/copy protected;
2. Analog-to-digital copying is not protected in this model; and
3. Signals flowing from digital outputs of television monitors will be vulnerable to copying even though the signal going to the monitor is encoded.

These shortcomings are critical and the technology committee is still analyzing them and attempting to arrive at solutions. There is no reason to deviate from the preset course, unless we learn that one or more of the above shortcomings cannot be addressed to our satisfaction.

As we have discussed, the status of the other issues relating to DVD are as follows:

1. Timing of Release of Product -

The question here is whether we release product as soon as the four industry segments (MPAA, EIAA, computer and NCTA/satellite) agree on draft legislation, if ever, or wait until

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the legislation is adopted. Warner Bros. and possibly certain other studios will probably release as soon as agreement in principle is reached because the hardware manufacturers will probably start manufacturing machines in accordance with the agreed specifications, before legislation is adopted. However, we do not have to make any decisions now.

2. Regional coding -

This is being addressed by the manufacturers standards committee. There is general understanding that there will be 5-6 regions, and that machines in one region will "lock-out" discs from another region, protecting our ability to maintain our "windowing" policies. The main issues are which regions will include Mexico and China.

3. Durability of Video Discs -

We have not yet seen any market or lab tests demonstrating the durability of video discs in a rental environment. This will be important for determining the marketing and pricing of discs.

4. Pricing -

We have not yet seen any proposals concerning the pricing of discs.

5. Formation and Maintenance of an Encryption Licensing Entity -

As part of the "encryption" model for copy protection, Matsushita is donating a proprietary encryption technology, which will be licensed to software encryptors and hardware decryptors. Although there will be no royalty or fee for the technology, the licensing "entity" will need to be funded and managed. These issues are presently being discussed. One benefit of the "encryption" model and the formation of an "entity" is that it will provide for the encryption/copy protection solution to be more easily adaptable for worldwide application, and not be limited to the reach of the U.S. legislation as the EIAA/MPAA legislation was.

Please let me know if you need additional information or if I can help further.